

# **Lancashire County Pension Fund**

## **Draft Annual Governance Statement 2019/20**

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### ***Introduction***

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31 March 2020 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 178,150 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Fund and this statement sets out that review.

### ***The Pension Fund's Responsibilities***

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse, is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS and has regard to relevant standards such as the Myners' principles. A copy of the Governance Policy Statement is available to view through the following link

<https://www.yourpensionservice.org.uk/media/1204/governance-policy-statement-updated-january-2018.pdf>

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition) which defines the seven core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The statement also sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance

### ***The Purpose of the Governance Framework***

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both Fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2020.

## **The Fund's Governance Framework**

The key elements of the systems and processes that comprise the Fund's governance framework are:

### ***The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.***

The Fund has clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Lancashire Local Pension Board.

### ***Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements***

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling three-year Strategic Plan and for monitoring the progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and how such risks are to be mitigated, together with any legal or other considerations that might arise.

### ***Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.***

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the four dimensions of the running of a pension fund. Many of these functions are now performed under contract by the Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on performance in relation to the Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and are subject to review by the Investment Panel.

The administration service is undertaken by Local Pensions Partnership Administration (LPPA) which is now a separate entity. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPPA. The Lancashire Pension Board also review the administration service and met with the Director and Deputy Director of Administration during the year.

***Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.***

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely in the county council's Constitution.

***Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.***

These matters are defined in law and the various codes of conduct and protocols contained within the county council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following county council elections.

***Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.***

The interaction between the Pension Fund Committee and the Investment Panel meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

***Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define***

***how decisions are taken and the processes and controls required to manage risks.***

At the top level these requirements are set out in the Governance Policy Statement and within the county council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities. The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk.

Towards the end of the financial year a global pandemic of the Coronavirus known as Covid-19 has taken place. As this represents a significant risk to the Fund a specific risk register has been developed dedicated to Covid-19 which covers the main functions of the Fund namely:

- Administration;
- Funding;
- Investment;
- Governance;
- Member Communications.

Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed or reduced. The risk register is regularly reported to the Pension Fund Committee and the Pension Board.

***Fulfilling the core functions of an Audit Committee***

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

***Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful***

The various LGPS Regulations, covering both the structure and benefits payable by the Fund and the investment of funds, are key from an operational point of view.

Compliance with the Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPP's custodian. LPP Investments Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

### ***Assurance provided by internal audit***

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by LPP's own internal audit service and a programme of work has been completed in respect of the county council's responsibilities which covered:

- The council's oversight of Local Pensions Partnership Limited;
- Collection of employee and employer contributions;
- Accounting for the Pension Fund through the council's general ledger.

All audits gave substantial assurance that the relevant controls are adequately designed and effectively operated.

In addition the Head of Internal Audit seeks to obtain and understand the assurance provided by LPP's own internal auditors Deloitte. During 2019/20 Deloitte has completed and reported four audits under its three-year risk-based audit plan, two of which relate to LPP's own operation rather than its work in administering the Fund or investing on its behalf. Because the scope of audit work on LPP's activities and the information available about it are both restricted, the council can take only limited assurance over LPP's work. The relevant internal audit work undertaken related to covenant reporting and the 'senior manager and certification regime' (relating to compliance with FSA regulation, on both of which Deloitte provided assurance that the controls were effective with scope for improvement.

### ***Whistle blowing and receiving and investigating complaints from the public***

The Fund participates in the National Fraud Initiative and actively investigates all data matches found as a result of this process. The results of this work are reported to the county council's Audit, Risk and Governance Committee.

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the county council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

### ***Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.***

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic-based training relating to the decision at hand is provided.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake continuing professional development relevant to their role.

### ***Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.***

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains transactional capability.

- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation;
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

***The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.***

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a number of partnerships, which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the Pension Fund is LPP. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's statement 'The Role of the Chief Finance Officer in Local Government', and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the county council's functions as administering authority rests with the Head of Fund.

***Review of Effectiveness***

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2019/20 were:

- The triennial valuation of the Fund;
- To monitor the administration service as changes continue to be made within LPP;
- To review the cost of LPP and estimated savings made;
- To revise the Funding Strategy Statement as necessary.

### ***Actions Planned for 2020/21***

The following specific actions are proposed for during 2020/21:

- Monitoring the impact of Covid-19 with the continued development and monitoring of a separate risk register;
- Review the governance arrangements of the Fund in light of the expected Good Governance Report from the Scheme Advisory Board;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPP including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken on employer risk and implement any identified changes.

### ***Conclusion***

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the Lancashire County Pension Fund.

Signed

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County Councillor Eddie Pope  
Chair of the Pension Fund Committee

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Abigail Leech  
Head of Fund  
Lancashire County Pension Fund

Date: .....